

P-421/EI-89-860 ORDER APPROVING INCENTIVE PLAN FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of U S WEST
Communications, Inc.'s Incentive
Regulation Plan

ISSUE DATE: May 20, 1992

DOCKET NO. P-421/EI-89-860

ORDER APPROVING INCENTIVE PLAN
FILINGS

PROCEDURAL HISTORY

I. History of this Proceeding

On October 30, 1989, U S WEST Communications, Inc. (U S WEST or the Company) filed a proposed incentive plan under Minn. Stat. § 237.625 (1990). Under incentive regulation a company is allowed to earn amounts in excess of its authorized rate of return, and is required to share a specified percentage of such amounts with its ratepayers. The percentage of excess earnings to be shared is set by the Commission to reflect the relative risks the plan imposes on ratepayers and shareholders.

On June 7, 1990 and September 17, 1990 the Commission issued Orders in this docket accepting the proposed plan subject to specified modifications. On October 5, 1990, the Company accepted the incentive plan as modified by the Commission. The plan was later modified, by agreement with the Company, to exclude the financial effects of FCC-deregulated services from earnings and sharing calculations. ORDER AMENDING INCENTIVE PLAN AND ACCEPTING INCENTIVE PLAN FILINGS (May 20, 1991).

II. The Filings at Issue

The Orders modifying and adopting the proposed incentive plan required the Company to file detailed financial reports annually, setting forth calendar year earnings, proposed sharing amounts, and supporting work papers. The Orders also required regular reports on Company compliance with other incentive plan requirements: (1) annual reports on Company progress in updating connection facilities with independent local exchange carriers; (2) annual reports on Company progress in implementing its rural modernization program; (3) quarterly reports on quality of service, measured by five objective criteria as well as the results of customer satisfaction surveys.

On February 3, 1992 the Company filed its annual reports on the rural modernization program and on updating its connection facilities with independent local exchange carriers. The Company filed quarterly quality of service reports on schedule throughout the year.

On April 1, 1992 the Company filed its 1991 financial reports. On April 21 the Company made a supplemental filing, correcting an arithmetical error and deleting from the rate base calculation certain tax credits which had been erroneously included. On May 1, 1992 its Notice to the Commission -- Incentive Plan Sharing Summary. Those filings reported \$12,228,000 in earnings over the plan's sharing threshold. Under the terms of the plan, that amount was to be divided evenly between ratepayers and shareholders. After applying the plan's revenue conversion factor, which adjusts for taxes, to the ratepayers' share, the Company proposed to distribute \$10,554,000 to ratepayers.

The Department of Public Service and the Residential Utilities Division of the Office of the Attorney General filed comments on the Company's filings. Both agencies agreed with the Company's calculations, recommended approving the filings, and supported the Company's sharing proposal.

The filings came before the Commission on May 14, 1992.

FINDINGS AND CONCLUSIONS

III. Commission Action

A. Financial Report and Sharing Summary

The Commission finds that the financial reports filed by the Company comply with the terms of the incentive plan and the June 7 and September 17 Orders. The Company used proper procedures in determining calendar year earnings, amounts subject to sharing, and amounts to be distributed to each customer class. The financial reports and sharing summary will be accepted and approved.

To expedite the distribution of shared earnings to ratepayers, the Commission will require prompt filing of a proposed customer notice and an implementation schedule.

B. Modernization, Interconnection, and Quality of Service Reports

The Company's report on efforts to update its interconnections with independent local exchange carriers conforms with the requirements of the June 7 and September 17 Orders. The report

shows that during 1991 the Company installed fiber facilities at 12 meet points and upgraded existing fiber optic equipment at another meet point. The report demonstrates good faith efforts and reasonable progress. It will be accepted.

The Company's report on the implementation of its rural modernization program complies with the requirements of the June 7 and September 17 Orders. In 1991 the Company converted 14 central offices, serving 42,678 access lines, from analog to digital equipment. The filing included a list of 22 central offices, serving 63,456 access lines, scheduled for conversion in 1992. The Commission finds that the Company is making reasonable progress in the rural modernization program, and the filing will be accepted. The Commission will require written notice if the Company for any reason changes the 1992 conversion schedule.

The Company's quality of service reports meet the requirements of the June 7 and September 17 Orders. The reports show that the Company met all applicable quality of service standards during each quarter of 1991. The reports will be accepted.

ORDER

1. The Commission accepts the Company's incentive plan filings of April 1, 1992; April 21, 1992; May 1, 1992; February 3, 1992; and the quarterly quality of service reports filed throughout the year.
2. The Commission accepts and approves the Company's proposal to distribute \$10,554,000 in shared earnings to ratepayers and accepts and approves the proposed allocation of the sharing amount between ratepayer classes.
3. Within 10 days of the date of this Order the Company shall file a proposed customer notice to accompany the distribution of shared earnings and a proposed time schedule for distributing shared amounts.
4. The Company shall file written notice of any changes it proposes to make in the rural modernization schedule filed on February 3, 1992.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)